KENTING

KENTING LIMITED
ANNUAL REPORT TO SHAREHOLDERS 1976

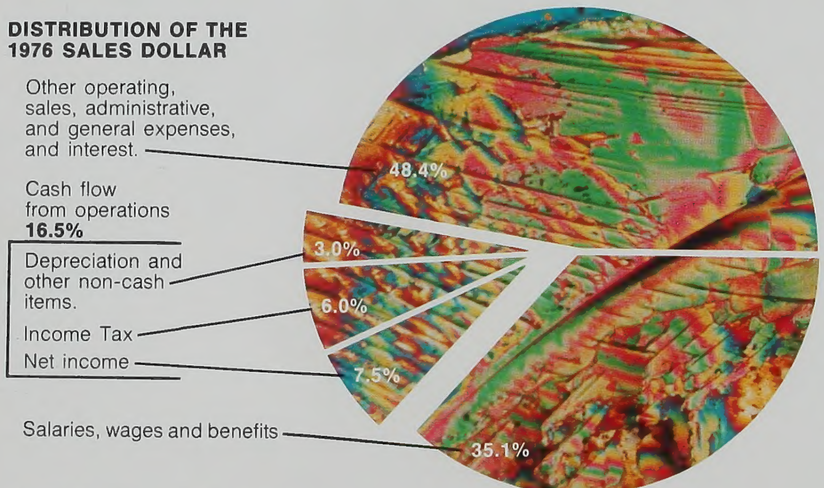
KENTING LIMITED AND SUBSIDIARIES

THE YEAR IN BRIEF

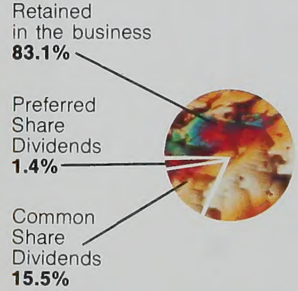
FINANCIAL HIGHLIGHTS (thousands of dollars except per share data)

	1976	1975	PERCENTAGE CHANGE
Revenue	**$51,296**	$42,399	+ 21
Cash Flow from Operations	**8,441**	6,879	+ 23
Net Income before extraordinary item	**3,510**	2,690	+ 30
Net Income per Share before extraordinary item	**4.36**	3.38	+ 29
Common Share Dividends	**595**	279	+ 113
Dividends per Share	**.75**	.36	+ 108
Additions to Property and Equipment	**7,501**	8,521	- 12
Working Capital	**2,902**	4,104	- 29
Total Assets	**36,207**	29,684	+ 22
Income Taxes	**3,083**	2,573	+ 20
Term Debt	**5,854**	6,598	- 11
Shareholders' Equity	**11,746**	8,552	+ 37
Equity per Common Share	**13.80**	9.70	+ 42

DISTRIBUTION OF THE 1976 SALES DOLLAR



Distribution of 1976 Net Income



OPERATIONAL HIGHLIGHTS

Page Number

DIVISIONS EXPANDED ..... capital investments total 7.5 million dollars:

	(thousands of dollars)
Drilling	$2,140
Construction	2,035
Geophysics and Mapping	1,631
Helicopters	983
Interests in oil and gas properties	712
	$7,501

GLOSSARY OF RESOURCE TERMS

BIT CHANGE when a drill bit wears out it is removed from the hole and replaced. All drill pipe is pulled from the hole, threaded connections are broken generally in 60 or 90 foot "stands" and racked in the mast. This procedure is called "tripping".

CONNECTION TIME a drilling term to describe the addition of drill pipe as the bore hole is drilled.

DRAWWORKS the hoisting mechanism on a drilling rig. It is essentially a winch, which spools off or takes in the drilling line, thus raising or lowering the drill string and bit.

DRILL PIPE a steel tube, with threaded connections on each end, in the range of 29 to 31 feet in length.

GATHERING SYSTEM a complex of gas or oil lines leading from individual wells to a compressor or pumping station which gathers the production for transmission into larger lines leading eventually to a large "trunk" line or storage facility.

GRAVIMETRICS a geophysical method of measuring the changes in the earth's gravitational field which may be caused by mineral or petroleum bearing structures. The instrument employed is a gravimeter or gravity meter.

MAGNETICS a geophysical method measuring the natural magnetic field, disturbances in which may be caused by geology favourable to the occurrence of petroleum or minerals. The instrument employed is a magnetometer.

MAST (DERRICK) the tall portable hoisting structure which allows addition and removal of drill stem.

SEISMICS a geophysical method using the generation, reflection or refraction detection, and analysis of elastic waves in the earth. The instrument employed is the seismograph.

SPECTROMETER geophysical instrument which records the radiation spectrum and relative intensities of gamma rays emitted by various radio-active minerals.

SUBSTRUCTURE RIG a rig which is transported in sections and assembled at the drill site — normally rigs with depth capacities of greater than 5,000 feet.

TAR OR OIL SANDS a mixture of sand, mineral matter, water and crude bitumen; a heavy black asphaltic hydrocarbon, highly viscous and containing sulphur nitrogen and trace metals.

TEST HOLE well drilled to determine if hydrocarbons or minerals are present.

TRAILER RIG is transported on attached wheels and is normally used for drilling holes of less than 5,000 feet.

GLOSSARY OF SELECTED ACCOUNTING TERMS

CASH FLOW FROM OPERATIONS working capital generated from operations before provision for actual income taxes; that is, net profit before extraordinary items and income taxes and before deduction of non-cash items (mainly depreciation).

CONTINGENT LIABILITY an obligation which may arise as a consequence of a future event, the occurrence of which is possible but not probable.

CURRENT ASSETS cash or other assets which will be either converted to cash or used in the conduct of business activities within one year of the balance sheet date.

CURRENT LIABILITIES liabilities which will be liquidated through cash payment or conduct of business activities within one year of the balance sheet date.

DEFERRED INCOME income which has been received but which involves incurring future costs and is more appropriately taken into income in future periods when these costs are incurred.

DEFERRED INCOME TAXES income taxes which may become payable in future years when expenses (mainly depreciation) claimed for tax purposes become less than those charged for accounting purposes. Provisions for such taxes are made by charges against income during years in which income tax deductions exceed amounts charged for accounting purposes.

DEPRECIATION a systematic charge against earnings intended to amortize the cost of property, plant and equipment (less estimated salvage values) over the useful life of such assets.

EQUITY BASIS a method of accounting for long-term investments under which an investor records his share of income or losses of the entity in which he has invested by increasing or decreasing the carrying value of the investment.

EXTRAORDINARY ITEMS profits or losses which are not typical of normal business activities and which are not expected to occur regularly over a period of years.

PAID IN SURPLUS the excess of the consideration attributable to the issuance of shares over the par value of those shares.

PERCENTAGE-OF-COMPLETION a method of accounting which results in the recording of contract profits on the basis of the amount of work the contractor has completed.

REDUCING BALANCE BASIS a method of depreciation which results in depreciation provisions being largest during the initial year of ownership of assets. Subsequent provisions decline progressively each year.

RETAINED EARNINGS the amount by which net income has exceeded dividends and losses.

TERM DEBT liabilities payable at times which are more than one year from the balance sheet date.

WORKING CAPITAL current assets less current liabilities.

KENTING PROJECT LOCATIONS 1976

TO OUR SHAREHOLDERS,

Kenting has completed an excellent year. Our success in 1976 is directly attributable to an unprecedented demand for our services and to the enthusiasm of Kenting's employees to get the job done and done well.

Looking at our domestic markets, the political climate has been and will continue to be a key factor in our planning and in our performance.

Government policies designed to stimulate exploration and development of Canada's energy resources have been successful in Alberta and British Columbia where the economics of searching for and developing hydrocarbons, particularly natural gas, are now attractive to the investor. Indications are that the search for oil, which economically has not been as rewarding as natural gas exploration, will also get a much needed stimulus through incentives provided by provincial governments.

The industry in Saskatchewan however, remains stagnant, burdened by unresolved issues as the provincial government seeks to extend its intervention in the natural resource industries.

Petroleum activity in the Arctic and offshore frontier areas under federal jurisdiction continues in its several year decline during which significant portions of federal regulations have been suspended. Uncertainty toward the nature of proposed future federal government legislation retards exploration expenditures at this critical time.

Nevertheless we expect to see an improvement in exploration activity in future years as Canada's precarious energy position is realized.

While we are optimistic about our future, there are some clouds on the horizon. In Alberta, a surplus of natural gas is developing, largely due to the vigorous exploratory effort in Western Canada together with reduced industrial consumption.

It is important that this short term oversupply problem does not lead to a decrease in the present level of oil and gas development activity. Medium and long term supply and market conditions indicate the rate of energy development in Canada should be increased.

Insofar as Kenting is concerned, any temporary drop in development activity would affect our pipelining and construction division, and to a lesser extent, our drilling and geophysical divisions.

We are encouraged by the apparent realization of our governments and consumers that it must be in Canada's interest to buy our oil and gas at home for much less than we pay abroad. Substantial additional benefits flow from self-reliance such as increased employment for Canadians and corporate and personal income taxes and royalties paid by a vital industry. When we buy abroad for higher prices, these benefits do not accrue to the Canadian economy.

In order to capitalize on growing market opportunities, which look excellent for the short to medium term, our aggressive expansion effort, begun in 1975, has been maintained. In 1976, capital expenditures were $7.5 million. Investments were made in all divisions in order to expand our capability.

We have made every effort to maintain our position as an efficient organization during the expansion programme of the last two years. Thus far, we are reasonably satisfied with the results.

Our initial efforts in 1976 to provide a long term stable earnings base for Kenting are on schedule. To date we have invested about $1,500,000 in proven and producing petroleum properties, located mainly in the Verger and Patricia areas of South Eastern Alberta. These properties have now been further developed and will be making a contribution to Kenting's earnings in 1977. In relation to Kenting's total earnings, this source of income is not yet very significant, however as opportunities develop we intend to make other investments.

1976 was a year that challenged the capabilities of all our divisions.

Kenting Oilfield Services' sales increased 48 per cent over last year and profits increased substantially. Except for our concern, in the near term, about the natural gas surplus we are optimistic about the future.

Kenting Drilling expanded its Canadian drilling fleet by 70 per cent in 1975. In the first full year operating with these additional rigs, the division enjoyed the highest equipment utilization in its history. To meet increasing demand in Great Britain, one more small rig was shipped to Kenting (U.K.) Limited. We built a modern highly mobile rig for the Canadian market to replace the one shipped to England. 1977 should be another good year for our drilling divisions.

Kenting Exploration Services, involved in petroleum, mining and marine engineering geophysics, had a good year. The division presently has a large contract backlog. During the year we acquired two additional petroleum seismic systems to bring the total to five. Additional hardware and software to provide an even better marine geophysical engineering survey capability was put into service.

Kenting Earth Sciences, our Ottawa based air survey group, also had a good year and the present backlog of business promises good results for 1977. Continued upgrading of equipment and development of new technology has put us in a strong competitive position.

Kenting Helicopters operated in a difficult market plagued by an industry surplus of helicopters. This surplus situation will be rectified when the anticipated increase in northern development takes place. Regardless of these difficulties the division was profitable. We have continued to upgrade our fleet by phasing out older aircraft and replacing them with new ones. The markets for air transport appear to be improving and we are in an excellent position to capitalize on a strengthened market.

Kenting Africa Resource Services is 40 per cent owned by Nigerians. Its head office is in Lagos, the capital city of Nigeria. During the year the division suffered a significant operating loss. The causes became apparent in the last quarter of 1976 and corrective measures have been taken.

Even though operating a business internationally presents different and more difficult management problems than we face at home, the potential market in Nigeria is excellent.

We feel the future prospects are good as demonstrated by our investment in a new photogrammetric and air photo facility in Kano and a soils laboratory in Jos.

We have made good progress in developing the potential of our Nigerian staff who are filling increasingly responsible positions within our Nigerian organization.

As reported in the media, some Kenting divisions earned "excess revenues" totalling $178,000 in 1975. Anti-Inflation Board controls are based upon the premise that profit as a percentage of sales should have been lower than during a pre 1975 "base period". Application of the regulations began in October, 1975 and, as a result, the last ten weeks of the 1975 calendar year became the first control period. Profit margins for some divisions were higher in this control period than those prevailing for the entire year, thus causing the "excess revenue". 1975 "excess revenues" were eliminated in 1976 and no material amounts of "excess revenue" arose in 1976.

Trimac Limited, a Canadian resource oriented transportation company, announced in February 1977 that it intended to make an Offer to Kenting shareholders for the balance of the Kenting common shares which it did not already own.

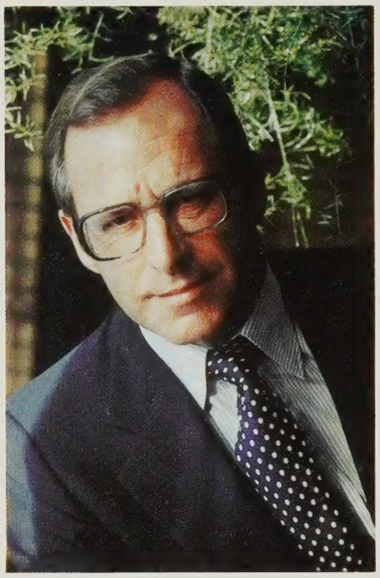
In closing I would like to express my thanks to the three groups who make achievement of our goals possible. To our clients for their confidence, to you, our shareholders for your support and to our employees for their dedication.

On behalf of the Board of Directors,

A. Vanden Brink,
President.
March 31, 1977

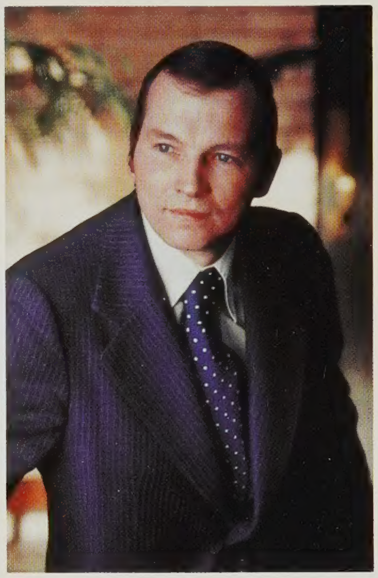
ANTONIE VANDEN BRINK
President — Director°•

Born in Holland, Mr. Vanden Brink emigrated to Canada in 1950 and became involved in the oilwell drilling industry. By 1963 he had co-founded a drilling company which was merged into Kenting in 1967. He was appointed President of Kenting Limited in November 1973. Mr. Vanden Brink is a Director of Trimac Limited, Western Rock Bit Company Limited and The Canadian Association of Oilwell Drilling Contractors. He is married and has three children.



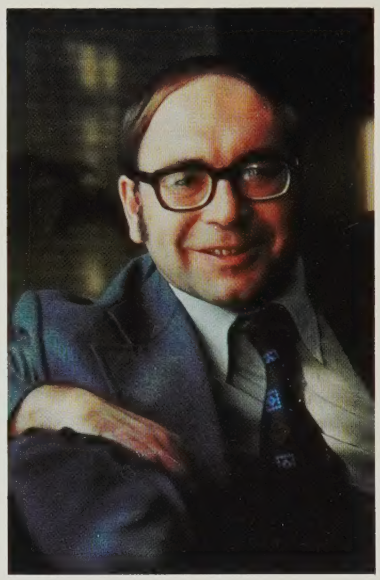
DONALD M. GRAVES
Executive Vice-President

Mr. Graves received his B.Comm. degree from the University of Alberta and his M.B.A. from the University of Western Ontario. A chartered accountant, he has been associated with the Canadian and International oil industry since 1968. Before assuming his position at Kenting in 1974, he was Vice President of a major transportation company and President of an international drilling contractor. Married with two children, he is actively involved in community affairs and amateur sports.



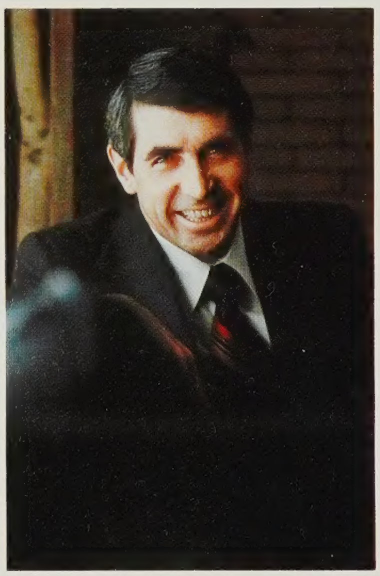
THOMAS A. JONES
Vice President Finance

A B.Comm. graduate of the University of Alberta and a chartered accountant, Mr. Jones was on the Senior Audit staff of Price Waterhouse before joining Kenting as Accounting Manager in 1970. He became Vice President, Finance in 1973. He has been active in amateur sport and other community related projects. Mr. Jones is married and has four children.



KENNETH C. GROGAN
Secretary-Treasurer

Mr. Grogan holds an R.I.A. degree from the Alberta Society of Industrial Accountants. Prior to joining Kenting as Systems Manager in 1969, he was manager of finance and administration for Trans Canada Rent-A-Trailer, a subsidiary of Atco Industries of Calgary. He became Kenting's Secretary-Treasurer in 1973. Mr. Grogan is married and has a family of four.



JOHN R. McCAIG
Director°

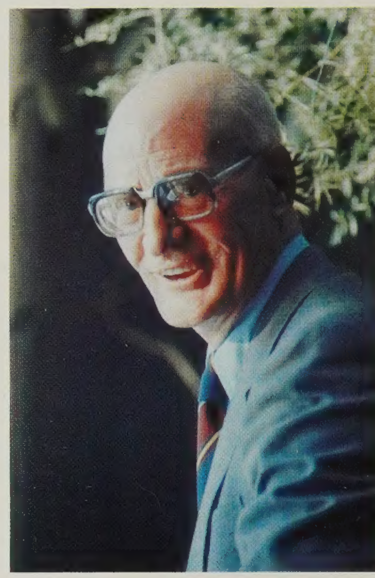
Mr. McCaig began his career with Maccam Transport Ltd. in Moose Jaw, Saskatchewan and in 1961 moved to Calgary as President of Trimac Transportation. In 1970 he became Chairman and Chief Executive Officer of Trimac Limited and in 1972 he moved to the Presidency. He holds directorships in eight companies, is active in several business associations and is President of Junior Achievement of Southern Alberta. Mr. McCaig is married and has three chidlren.

JOHN C. ANDERSON
Director°

Mr. Anderson is a native Albertan. An independent business man, he owns four companies involved in equipment sales and service to the construction industry in Western Canada. He was a part owner of Accurate Exploration, a geophysical firm which was one of the companies merged into Kenting in 1967. Mr. Anderson is a director of several companies and counts farming, automobile collecting and horse racing as his leisure activities. He has four children.

P. RITCHIE SANDWELL
Director

Mr. Sandwell is a consulting engineer and Chairman of Sandwell and Company Limited of Vancouver. He holds directorships or executive positions in eleven companies and has been involved in several other companies and public bodies including the National Research Council; The B.C. Research Council and the Science Council of Canada. Mr. Sandwell sits on the Canadian Council of the Conference Board in Canada and the Universities Council of British Columbia. He is married with seven children.

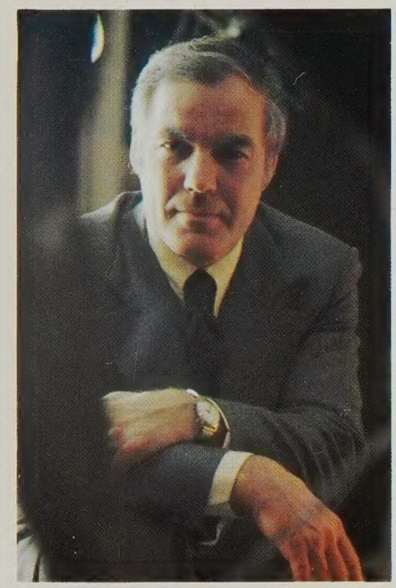


ALYN C. JOHNSON
Director

Mr. Johnson was a career banker. He was Vice-President and Regional General Manager for Alberta and the Northwest Territories when he retired from the Canadian Imperial Bank of Commerce in 1970 after forty-six years of service. He is a Director of six Alberta based corporations and has been active in many public service organizations. He is married and has three sons.

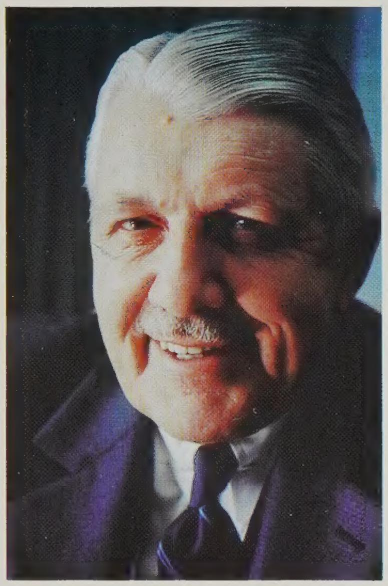
JOHN F. MOORE
Assistant Secretary, Director

A corporate lawyer, Mr. Moore graduated in 1951 from the University of British Columbia in Law. On his return to Calgary, he was associated with the firm of Mahaffy and Howard which later became Howard, Moore, Dixon, Mackie & Forsyth. In 1974 he became a partner in the firm of Harradence and Company. Mr. Moore has been honorary solicitor for the Canadian Red Cross Society since 1962 and served a two year term on the Calgary Development Appeal Board. He is married and has three children.



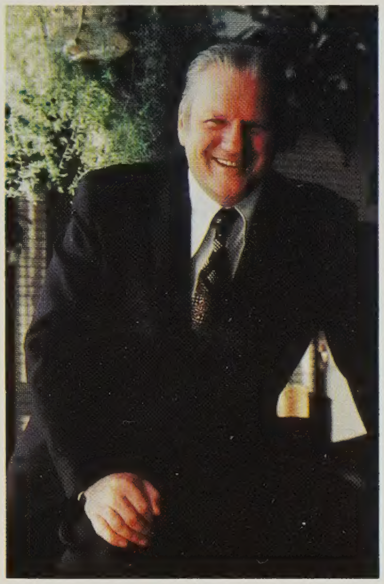
DONALD A. McINTOSH Q.C.
Director•

A solicitor with the firm of Fraser & Beatty in Toronto, Mr. McIntosh was born in Toronto and was educated at the University of Toronto and Osgoode Hall. He was called to the Bar of Ontario in 1936 and created a Queen's Counsel in 1952. He is a director of several companies including the Bank of Montreal, Argus Corporation Limited, and Traders Group Limited and is a Director and Vice President of Confederation Life Insurance Company. He is married and has three children.



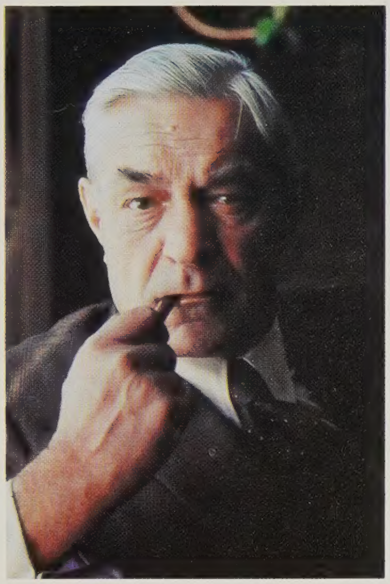
STANLEY W. ARMSTRONG
Director°•

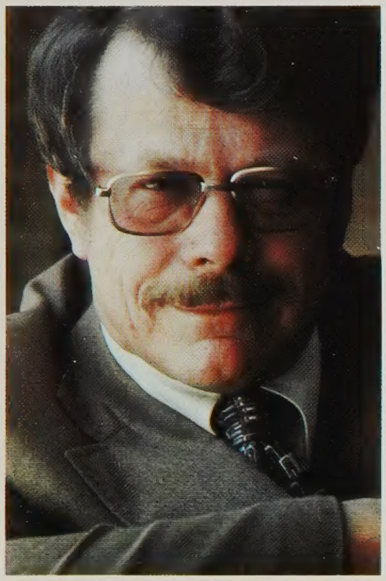
Mr. Armstrong is a B.Comm. graduate of the University of Manitoba and a Chartered Accountant. He is President of Canam Holdings Ltd. and Canadian-American Royalties, both of Calgary. A Director of six Alberta based companies, Mr. Armstrong is married and has three children.



D. DONALD C. McGEACHY
Director°

A Professional Engineer by education, Mr. McGeachy has been the President and General Manager of Canada Vulcanizer and Equipment Company Ltd. and President of Calumet and Helca of Canada Ltd. He is a Corporate Director and business consultant, lives in London, Ontario and holds directorships in thirteen corporations. He is a Past President of the Stratford Shakespearean Festival, a Trustee of the London YM-YWCA and a Director of the University Hospital. Mr. McGeachy is married and has four children.





A. ERNEST PALLISTER
Vice President,
Science and Development
Director

Mr. Pallister, a Professional Geophysicist, began his career in the oil industry in 1948. In 1958 he joined Accurate Exploration Ltd. and formed A.E. Pallister Consultants Ltd., both of which merged into Kenting in 1967. From 1972 to 1974 he served as the Vice Chairman of the Science Council of Canada and then organized an independent resource consulting firm, Pallister Resource Management Ltd., of which he is currently President. He is married and has three children.

DIRECTORS & OFFICERS

- ° Member, Executive Committee
- • Member, Audit Committee

ADDITIONAL CORPORATE INFORMATION

OTHER OFFICERS

J. F. MOORE
Assistant Secretary

G. W. OWEN
Assistant Secretary

TRANSFER AGENTS
Royal Trust Co.

AUDITORS
Price Waterhouse & Co.

SOLICITORS
Fraser & Beatty — Toronto
Harradence and Company — Calgary

MAIN BANKERS
Canadian Imperial Bank of Commerce
Calgary

STOCK EXCHANGE LISTINGS
Toronto Stock Exchange
Alberta Stock Exchange

TICKER SYMBOL
KAL

DRILLING
Exploring for oil, gas and minerals in Canada and The United Kingdom.

KENTING DRILLING CO. LTD.
KENTING (U.K.) LIMITED

Drilling is the final step in the petroleum and mining exploration effort. Potential reserves indicated by geophysical and geological examination can only be confirmed when drilling is complete.

Kenting Drilling operates twenty rigs in Canada and the United Kingdom ranging in depth capability from 1 000 m (3,000 ft.) to 5 000 m (15,000 ft.). Kenting's drilling revenue increased 33% over last year and now accounts for 44% of Kenting's overall revenue as compared with 40% in 1975. 1976 was the first year that the seven rigs purchased in 1975 operated under the Kenting name for a full year. The division had the highest utilization of equipment in its history and consequently had its best year ever from a financial viewpoint.

Kenting Drilling's modern operations headquarters consisting of office and repair facilities, warehousing and storage yards are located in the Nisku Industrial Park near the Edmonton International Airport, south of Edmonton. From this nerve centre, staffed by highly qualified personnel, Canadian drilling operations are monitored and directed.

A typical drilling rig directly employs some sixteen people in the field. Drilling a well requires the help of several subcontractors employing about sixty more people. If the well is a producer, still more employment is created.

Overseas, our drilling activities are expanding in the United Kingdom. In October a third rig, capable of drilling to 1 500 m (5,000 ft.) was shipped from Edmonton to England. Drilling to discover coal reserves occupied the rigs for most of the year. Oil and gas drilling, while accounting for fewer holes, contributed substantially to total sales. Of the 55 people employed in the United Kingdom, more than half are British nationals.

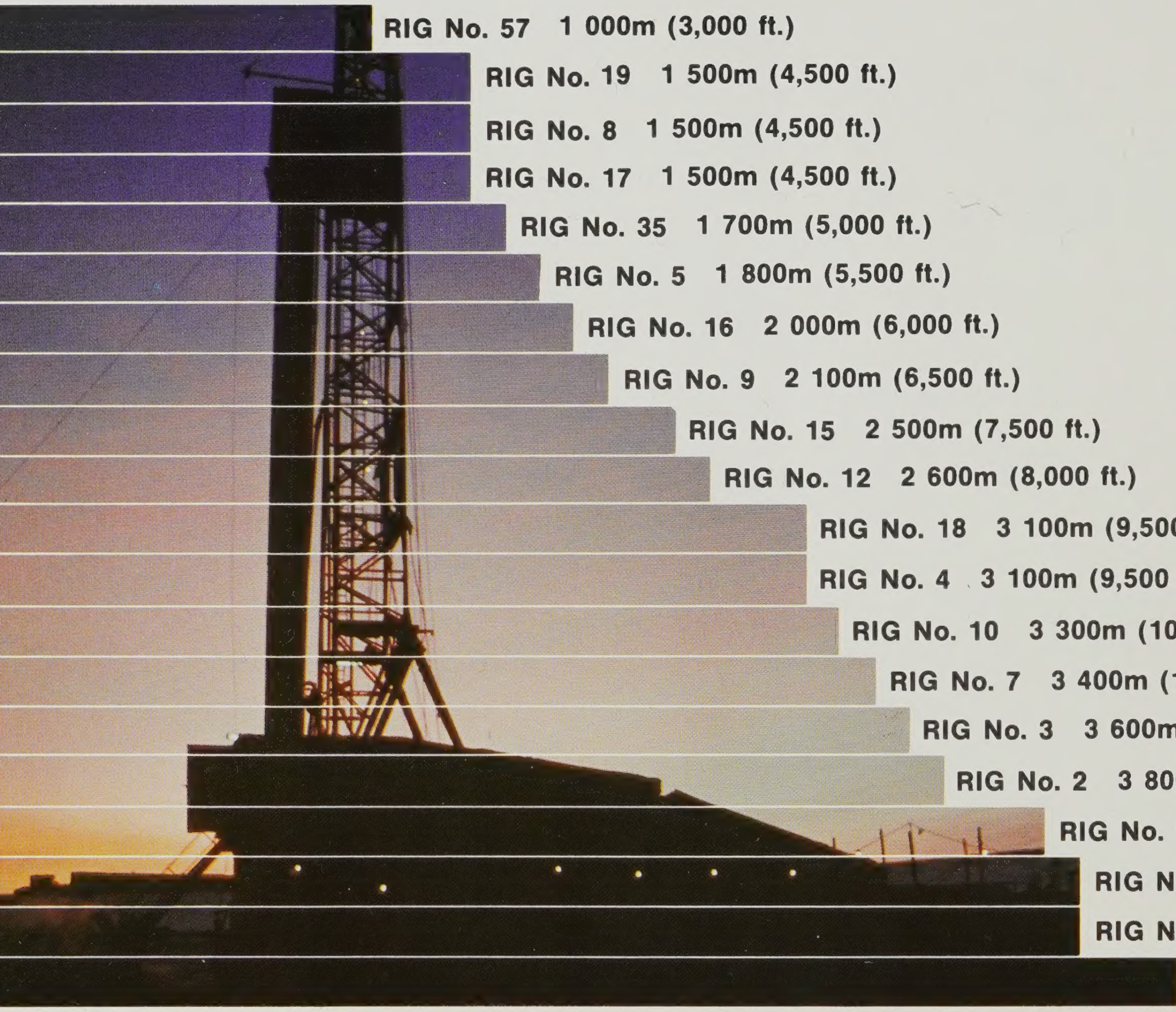
A resident managing director, supported by his experienced operational and administrative staff, directs the British operations from offices in Moortown, Lincolnshire.

Staff at divisional headquarters in Calgary provides overall management, administration, sales and engineering direction. In total, Kenting's drilling operations employ an average of 355 people.

Drillers Wayne Booker and Bob Owens overhaul the drawworks from one of Kenting's deep rigs, in the Nisku shops.

Floorhands Art Free and Bill Scott rig up a downhole drilling assembly on Kenting's 1 500 metre Rig 8.

A rig the size of rig 7 requires 25 truckloads to move to a drillsite, employs a crew of 16 men and requires an average of 30 days to complete a hole of 2 953m (9,000 ft.) dependant on the geology of the area.



RIG No. 57 1 000m (3,000 ft.)
RIG No. 19 1 500m (4,500 ft.)
RIG No. 8 1 500m (4,500 ft.)
RIG No. 17 1 500m (4,500 ft.)
RIG No. 35 1 700m (5,000 ft.)
RIG No. 5 1 800m (5,500 ft.)
RIG No. 16 2 000m (6,000 ft.)
RIG No. 9 2 100m (6,500 ft.)
RIG No. 15 2 500m (7,500 ft.)
RIG No. 12 2 600m (8,000 ft.)
RIG No. 18 3 100m (9,500 ft.)
RIG No. 4 3 100m (9,500 ft.)
RIG No. 10 3 300m (10,000 ft.)
RIG No. 7 3 400m (10,500 ft.)
RIG No. 3 3 600m (11,000 ft.)
RIG No. 2 3 800m (11,500 ft.)
RIG No. 11 4 600m (14,000 ft.)
RIG No. 14 4 800m (14,500 ft.)
RIG No. 1 4 800m (14,500 ft.)
RIG No. 6 4 900m (15,000 ft.)

KENTING DRILLING RATED RIG CAPACITY

Technological improvements continually take place in the drilling industry. Ways to improve the efficiency and capacity of the rigs are constantly sought by our operations and engineering staff.

Capital expenditures totalling $2,140,000 in 1976 included the costs of the regular improvements we make to our drilling fleet. We reassembled a highly mobile 1 500 m (5,000 ft.) rig in a configuration to improve its drilling efficiency and made it easier to move from hole to hole. Drilling mud delivery systems have been improved on several rigs enabling us to drill more efficiently.

Commitment of capital to preventative maintenance, redesign, and to new, more efficient equipment, does not alone make a competitive drilling operation. Quality performance and a solid service reputation hinges on the people who run the equipment. Kenting is proud to have some of the best drilling people in Canada; many have worked for over twenty years with Kenting. This combination of quality equipment and people who take pride in their work puts Kenting in the top ranks of the Canadian drilling industry.

Rig 19 prepares to move out of the fog shrouded yard at Moortown, in England, on its way to its first coal exploration hole in south Wales.

Kenting's 3 100 metre Rig 18 drilling on location in the Venus area of northwest Alberta.

CONSTRUCTION AND PIPELINING

Building hydrocarbon production facilities and pipelines for Canadian industry.

Kenting Oilfield Service lays a ten inch pipeline north of Edson, Alberta. Crews are welding the pipe sections together. Once the sections are joined, they will be lowered into a ditch to be dug along the cleared area on the left.

This pilot plant, built by Kenting Oilfield Services for Norcen Energy Resources Limited, is designed to enhance the recovery of oil from the Cold Lake Tar Sands deposit. Steam is generated in the large building, piped to the wells and injected into the tar sands. When the oil thins from the heat, it is pumped to the storage tanks on the right.

KENTING OILFIELD SERVICES
TECHNICAL ENTERPRISE

Kenting's construction division is responsible for building the delivery systems which bring gas and oil to the main transmission lines for ultimate distribution to consuming families and industries across Canada.

The division lays pipelines, constructs oil pumping stations, gas compressor stations and a variety of more complex installations designed to enhance the recovery of Alberta's petroleum reserves. Two major projects handled by the division were located in central Alberta; one in the Cold Lake tar sands deposits, the other in Swan Hills.

The Cold Lake project is a pilot plant for the recovery of oil from bitumen. In Swan Hills the project involved the construction of a central production facility incorporating waterflooding and gas compression installations. Complexes of this type help recover reserves, purify the fluids produced and move gas into the pipelines.

In our pipeline contracting activities, while no one project stands out in size, more kilometres were laid during 1976 than in any previous year. Sales almost doubled over those of 1975 as 464 km (290 miles) of pipe were installed, the bulk in the six to ten inch range.

Pipeline crews worked all over the southern and central production regions of Alberta. To expand our capability in pipelining service more than $1,800,000 dollars were spent in the purchase of construction equipment. Ditchers, backhoes, sidebooms, bulldozers and trucks were added, more than doubling our capacity. We have increased our supervisory staff by four — three in pipelining and one in construction — to better manage the expanded operation.

The division's district offices are located in the major production areas of Alberta. Our District Managers in each of these locations can draw on our construction equipment pool and local labour sources to provide crews fully equipped for a variety of smaller pipelining and construction projects. District operations personnel are also involved in the maintenance of production facilities within their local areas.

Technical Enterprise, the division's component sales and service operation, moved to new and larger quarters in July. Technical Enterprise supplies the drilling and production industry with various custom electrical and standard pneumatic and hydraulic components. The enlarged warehouse and shop area in Edmonton will help Technical Enterprise serve all clients more efficiently and to expand into a developing industrial market for product lines not associated with the oil industry.

Kenting Oilfield Services is headquartered on the outskirts of Edmonton. A staff of field supervisors, district managers, engineers, mechanics, office personnel and construction crews averages 300 during peak operating periods.

Technical Enterprise's new shop and warehouse capacity has been increased by more than 50% to meet the demand created by the upswing in drilling and a growing non-petroleum market for industrial equipment. Darrell Franke, a shop serviceman, overhauls a client's compressor.

Marilyn McIlvride, Kenting Oilfield's new client contact representative, is based in Calgary. A veteran of six years in the construction business, she took on the job in January of this year.

GEOPHYSICS AND AERIAL PHOTOGRAPHY

locating and evaluating a variety of natural resources — worldwide.

Geophysical surveys, whether carried out from the air, on the ground or over water, are one of the initial steps in the process of locating natural resources. Aerial photography and mapping are often the first methods used to get an overall picture of a geographic area, whether the project is concerned with forestry development, mineral exploration, economic planning or a dozen other applications.

Three Kenting divisions supply services in geophysics, each to separate markets, using differing techniques.

KENTING EARTH SCIENCES

Kenting Earth Sciences is the most diverse of Kenting's divisions. The division markets a group of services required by natural resource explorations, engineers, agriculturalists and planners. Airborne geophysics, aerial photography, and ground survey complement one another in the natural resource search — worldwide.

Major geophysical contracts this year found aircrews, technicians, surveyors and other personnel doing airborne magnetometer and spectrometer surveys in New Brunswick, Saskatchewan, Quebec, Manitoba and the Northwest Territories. Magnetometer and spectrometer surveys in Africa were flown over Mali, Zambia, Morocco and Upper Volta using the Kenting Digital Survey System. Major airphoto projects took place in Tanzania and Nigeria.

In geophysical surveying, instrumentation is constantly improving. Rapid advances in electronic circuit design require instrumentation to be continually upgraded to keep our services competitive. In the field of photogrammetry the computer is beginning to improve both accuracy and efficiency in the derivation of maps from air photos.

Kenting Earth Sciences has formed a "Development and Implementation Group" to examine ways whereby changing technologies can be adapted for use in Kenting's service package. Refinements are being developed for the successful airborne spectrometer, the KDSS, designed and built by Kenting and flown domestically for the Department of Energy, Mines and Resources last summer. A family of computer programs and subroutines is under development by our Photogrammetric Engineering Scientist. Liaison is maintained between the Ottawa group and other divisions to avoid duplication of effort.

Two new Wild A-8 stereoplotting instruments, used to produce maps from aerial photographs, were installed in the division's main plant in Ottawa. Both instruments are equipped with Aviotab TA digital servo-driven plotting tables.

Fifteen survey aircraft ranging in size from an Aztec to a DC-3 are operated by Kenting. Mid year, the division took over a hangar at the Ottawa International Airport. The electronics lab and service facilities for mapping cameras are now housed in expanded facilities in the hangar which also contains office space for flight operations personnel. Improvements in communications and efficiency have resulted from this grouping of complementary departments.

Kenting Earth Sciences' Ottawa staff averages 180 people. Two other production centres in Don Mills, Ontario and Calgary, Alberta are staffed by an additional twenty technical specialists.

Kenting Earth Sciences consolidated their flight operations, electronics laboratory, aircraft servicing and support staff into this hangar at Ottawa's International Airport.

Bill Redmond, Kenting's Land Seismic Department Manager, believes the new generation of land seismic recorders will allow surveys to be economically carried out in many areas previously inaccessible because of environmental or terrain constraints.

John Wilson, Mining Geophysicist, Mehdi Kazemzadeh, Photogrammetic Engineering Scientist and Bob Pavlik, Instrument Design Engineer, form the nucleus of the "Development and Implementation Group" at Kenting Earth Sciences in Ottawa. They are responsible for the application of forward-looking technology developments.

KENTING AFRICA RESOURCE SERVICES

The expansion of our Nigerian air photo and mapping company has progressed as planned. In September we opened a new soils analysis laboratory in Jos. November 24 saw the opening of a new photogrammetric and air photo processing lab in Kano. The building was dedicated by Chief Oluwole Coker, Director of Federal Surveys for Nigeria.

Two more stereoplotters will be installed in Kano during 1977. In order to further expand our staff, the required mapping compilation technicians and cartographic drafting personnel are being recruited locally and will be trained in the already successful technical education program Kenting has instituted.

The year's major project involved regional aerial photography covering large parts of Nigeria. Additional large scale aerial photo of thirty towns was carried out as part of the program. Maps derived from the photos will be used by the Nigerian government for a variety of planning purposes.

Kenting Africa's head office is located in Lagos, Nigeria's capital city and primary seaport.

Technical, management and support staff averages 280.

KENTING EXPLORATION SERVICES

Another Kenting division involved in geophysics is Kenting Exploration Services, a petroleum, mining and geotechnical contractor. Their projects ranged geographically from British Columbia through Alberta and the Northwest Territories to Newfoundland and overseas to Nigeria.

Petroleum exploration and marine pipeline route studies, offshore drill site location investigations and base metal prospecting are typical applications of Kenting's geophysical techniques.

Kenting Exploration operates its land seismic crews under Geophysical Permit Number 3, one of the original permits granted by the Province shortly after the Second World War. Five sets of seismic instruments are carried in

and supported by a fleet of 16 tracked vehicles and 44 trucks. "Tracks" are used when poor road conditions make wheeled transport impossible. Major and independent oil companies are the division's clients for seismic exploration. Operational hours increased 28% over 1975 in contrast to industry average increase in activity of about 10%. Typical projects are of four to five month's duration; however it is not unusual for contracts to be extended for longer periods.

Two sets of highly portable seismic instruments, light enough to be back-packed by field crews, were purchased during the year. Using helicopter support, they were transported to project sites in the mountains of British Columbia and the Alberta Foothills. Regular seismic crews spent the majority of their field season in the foothills, the south central areas of Alberta and in Saskatchewan.

Searching for base metals, Kenting's gravity crews spent the winter in the Yukon. Our induced polarization crews were in Pine Point exploring for base metals and our marine engineering geophysical group returned to the Beaufort Sea for their second season of offshore drillsite and pipeline route studies. Engineering geophysical surveys designed to help map the route of the Polar Gas Pipeline through the Arctic Islands were completed in Bellot Strait — one of the most difficult water crossings on the proposed route.

The computer based position recording system, developed in 1975 for offshore navigation in the Beaufort Sea, was upgraded prior to the 1976 field season. New hardware was purchased; complementary programs were written to expand the system and to increase its ease of operation and accuracy. Hardware and data formats are now fully compatible with the large Calgary computers used to process the data.

Other equipment acquisitions include piston coring devices for sea bed sampling, a 24 channel seismic streamer and an electronic positioning system. With the addition of two geophysicists and three technicians the Calgary staff averages 175 professional, technical and support personnel.

Chuck Ofuzim, an Assistant Manager of the new Kano photo lab, demonstrates newly installed map reproduction equipment to Chief O. Coker during opening ceremonies in November.

Offshore geotechnical services answer questions about drillsite locations and pipeline routes. Equipment and staff additions have expanded Kenting's capabilities for this growing market.

HELICOPTERS

Serving Canadian mining, petroleum and environmental interests with dependable helicopter transport.

KENTING HELICOPTERS

Kenting Helicopters is the new name for our contract air transport division. Nearly all the division's contracts were in some way involved with the development of energy supplies.

The environmental legislation which spurred Kenting Exploration into lightweight seismic techniques also provided part of the reason for Kenting Helicopters to acquire an Allouette III helicopter. Ideally suited to this "mini-seismic" technique, the Allouette III will be available for the 1977 field season.

In British Columbia, transmission lines are under construction to bring hydro power from the giant Mica Dam to consumers. Our helicopters worked for several months using a new technique for simultaneously stringing several cables over their supporting towers. It is a more efficient method than those previously used and requires a high degree of pilot skill.

In the Arctic, government research and the hunt for oil and gas goes on. Working for the Department of Energy, Mines and Resources and major oil companies, Kenting's pilots and engineers supported a variety of scientific and exploratory projects. Seismic programs, drilling rig support, plant, animal and fish ecology studies; ice surveys and engineering projects accounted for the bulk of the northern flying.

On the technical side of the operation, as part of a continual upgrading of the fleet, two helicopters were added during 1976 — a Bell 206B and the Allouette III. Two piston driven Sikorsky S-58 machines and two Hiller FH-1100's, also piston powered, have been sold.

Two more 206B's and a Bell 205 were added in March of this year, so that our fleet, except for one helicopter used for training purposes, is all turbine powered.

Kenting Helicopters is based in Hangar 3 at Calgary's International Airport. A staff of 50 pilots, engineers and administrative people keep the sixteen machines serviced and flying.

Pilot Terry Churcott noses his Bell 205 toward a power pylon in central British Columbia. Kenting developed new techniques involving air to ground radio control and actually landed on each tower as part of the cable stringing operation.

The Allouette III is a light medium helicopter particularly suited to portable seismic operations and airborne geophysical survey.

FINANCIAL REVIEW

Net income before an extraordinary item amounted to $3,510,000 in 1976, an increase of 30 per cent over the 1975 amount of $2,690,000. Total revenue increased by 21 per cent and reached a figure of $51,296,000.

A sales reduction occurred in only one area of operation. Helicopter and aircraft charter revenue declined by $1,674,000 because of the sale of the Company's Resolute, N.W.T. fixed wing charter operation in 1975. The charter helicopter division is, of course, an ongoing operation and its 1976 sales volumes were equal to those generated in 1975.

Net operating costs as a percentage of revenue increased from 72 per cent in 1975 to 72.9 per cent in 1976, while sales, administration and general expenses decreased from 9.9 per cent to 9.4 per cent.

Term debt interest charges were reduced from $642,000 in 1975 to $538,000 in 1976, even though average outstanding term debt was higher in 1976. The lower amount of interest is attributable to a $243,000 reduction of 1976 interest expense which arose from a gain on debt redemption. The gain, which amounted to $445,000, was made in 1975. It was not taken into income at that time so that it could be used to reduce interest over the 3.1 year term of the debt which was incurred to finance the redemption. The realization of the gain is geared to the outstanding principal balance of the refinancing debt so that the 1976 interest reduction is greater than the $202,000 which is still deferred and remains to be taken into income in 1977 and 1978.

Depreciation and depletion expense increased in 1976 due to the capital expansion program which resulted in the Company owning more equipment than in 1975. Gains on disposals of property and equipment were $608,000 in 1976, an increase of $120,000 over 1975. This type of gain occurs when fixed asset disposal prices are higher than their book values.

While total income taxes are provided at approximately the same percentage of pre-tax income as in 1975, the deferred portion of these taxes is less, resulting in $2,246,000 being actually payable with respect to 1976. Profits have risen at a higher rate than tax depreciation available on fixed assets. This is partially due to the Company's capital expenditure policy which does not allow purchases to be made simply to obtain tax deferrals.

At the end of 1975, Nigerian shareholders, who own 40 per cent of our Nigerian subsidiary, Kenting Africa Resource Services Limited, had an interest of $105,000 in the net assets of that company. This interest was reflected in the consolidated balance sheet as a liability and represented the minority shareholders' portion of profits of the Nigerian company plus $20,000 of share capital issued to those shareholders. The subsidiary incurred a loss in 1976, 100 per cent of which is reflected in the consolidated revenues and expenses of Kenting. The provision for interests of minority shareholders is, as a result, an item of income which represents the portion of the loss attributable to those shareholders. Deductions from income with respect to minority interests will be made in future years when the Nigerian company's income is sufficient to eliminate its deficit.

Extraordinary income resulting from the utilization of prior years' income tax losses has increased Kenting's net income by $334,000. This item arises because benefits relating to the future offset of losses against taxable income were not recorded at the time the losses occurred. At that time it was not certain that sufficient income to realize the tax benefits would be earned by the corporate members of the Kenting group which incurred the losses. Also, in one case, the loss carry-forwards existed at the time the company was acquired by Kenting Limited. In 1976 income was generated by these companies and, in accordance with generally accepted accounting principles, income taxes at ordinary rates have been deducted. However, because of the tax losses no income taxes will be payable. It is therefore appropriate to offset the ordinary tax provisions with extraordinary income.

Cash flow from operations was $1,562,000 higher than in 1975, but the relatively large provision for current income taxes reduced the amount of working capital generated to $6,262,000. This working capital was used to reduce term debt by $2,180,000, to pay dividends of $650,000 and to make investments of $867,000. The balance of $2,565,000 was used to partially finance purchases of property and equipment which amounted in total to $7,501,000. Further working capital was provided by the disposal of fixed assets for $1,900,000, by the liquidation of investments for $398,000 and by long-term borrowing of $1,436,000. The result of these transactions was that year end working capital was reduced by $1,202,000.

While the Company's year end working capital position has weakened, it will be significantly improved by excellent cash flows in the first quarter of 1977. Also, the Company's balance sheet position and its proven ability to generate profits and cash flows indicate a strong long-term financing capability. Some significant balance sheet data are set out below. Dollar amounts are stated in thousands.

Working capital held in Nigeria increased to $2,117,000 at December 31, 1976 from $1,445,000 at the end of 1975. Nigerian sales volumes are increasing and the major part of the resultant increases in accounts receivable and work in progress have been financed by extended credit terms on work sub-contracted to Kenting Earth Sciences in Canada. Kenting Africa Resource Services' revenue increased by about 30 per cent in 1976, and, when an early 1977 payment by that company to Canada is taken into account, Nigerian working capital has also increased by about 30 per cent.

In November, 1976 Kenting Earth Sciences obtained Export Development Corporation insurance with respect to all of its work for foreign customers. The insurance covers events which are not controllable by Kenting Earth Sciences or its customers, and will include most future revenue relating to work performed for our Nigerian subsidiary.

Dividends, employee compensation and, where necessary, prices have been restricted in order to achieve compliance with the Anti-Inflation Guidelines.

We hope that this discussion will be of assistance to you in analyzing the Company's financial statements and operations.

	1976	1975
Working capital	**$ 2,902**	$ 4,104
Current assets/current liabilities	**1.21:1**	1.39:1
Net book value of property and equipment	**$17,330**	$13,562
Net tangible assets (see definitions below) /term debt	**3.6:1**	2.8:1
Term debt	**$ 5,854**	$ 6,598
Shareholders' equity	**$11,746**	$ 8,552
Term debt/shareholders' equity	**.50:1**	.77:1
Invested capital (see definitions below)	**$21,180**	$16,333
Debt as a percentage of invested capital	**44.5%**	47.6%

Definitions

NET TANGIBLE ASSETS — total assets excluding goodwill less current liabilities and provision for aircraft overhauls.

INVESTED CAPITAL — bank advances, term debt (including current position) and shareholders' equity.

KENTING

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1976

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31 1976	1975
	(thousands of dollars except per share data)	
Revenue	**$51,296**	$42,399
Net operating costs	**37,380**	30,527
Sales, administration and general expenses	**4,815**	4,189
Interest:		
Current	**122**	162
Term debt	**538**	642
Provision for depreciation and depletion	**2,561**	2,020
Gain on disposal of property and equipment	**(608)**	(488)
	44,808	37,052
Operating income	**6,488**	5,347
Provision for income taxes:		
Current	**2,246**	1,093
Deferred	**837**	1,480
	3,083	2,573
	3,405	2,774
Minority interest in net loss (income) of subsidiary company	**105**	(84)
Income before extraordinary item	**3,510**	2,690
Extraordinary item — Income tax reduction arising from utilization of certain losses carried forward	**334**	—
Net income for year	**$ 3,844**	$ 2,690
Earnings per share:		
Income before extraordinary item	**$ 4.36**	$ 3.38
Net income for year	**$ 4.78**	$ 3.38

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31 **1976**	1975
	(thousands of dollars)	
CURRENT		
Cash, including term deposits	**$ 63**	$ 1,254
Accounts receivable	**12,390**	9,730
Notes receivable	**—**	734
Inventory of materials and supplies, at lower of cost or replacement cost	**793**	890
Contracts and work in progress in excess of billings	**3,447**	1,737
Prepaid expenses	**365**	281
	17,058	14,626
INVESTMENTS IN OTHER COMPANIES AND JOINT VENTURE	**974**	516
PROPERTY AND EQUIPMENT, at cost (Note 2)	**26,530**	22,512
Less — Accumulated depreciation and depletion	**(9,200)**	(8,950)
	17,330	13,562
OTHER (Note 1)	**592**	689
GOODWILL	**253**	291
	$36,207	$29,684

APPROVED BY THE BOARD:

Director

Director

LIABILITIES

	December 31 1976	1975
	(thousands of dollars)	
CURRENT		
Bank advances, secured (Note 3)	**$ 1,925**	$ 126
Accounts payable and accrued	**7,640**	7,168
Income taxes payable	**2,191**	939
Contract advances	**745**	1,232
Term debt due within one year	**1,655**	1,057
	14,156	10,522
TERM DEBT (Note 3)	**5,854**	6,598
DEFERRED INCOME	**202**	445
DEFERRED INCOME TAXES (Note 4)	**3,279**	2,814
PROVISIONS FOR ACCRUED COSTS (Note 1)	**970**	648
MINORITY INTEREST IN SUBSIDIARY COMPANY	**—**	105
	24,461	21,132

SHAREHOLDERS' EQUITY

	1976	1975
CAPITAL STOCK (Note 5):		
3,300 6% cumulative redeemable Class B preferred shares of a par value of $30.00 each (Authorized — 3,300 shares)	**99**	99
20,706 6% cumulative redeemable Class C preferred shares of a par value of $33.50 each (Authorized — 150,000 shares, issuable in series)	**693**	943
793,686 common shares of a par value of 50¢ each (Authorized — 2,000,000 shares)	**397**	387
PAID IN SURPLUS (Note 5)	**3,890**	3,650
RETAINED EARNINGS (Note 5)	**6,667**	3,473
	11,746	8,552
COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)		
	$36,207	$29,684

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the year ended December 31 **1976**	1975
	(thousands of dollars)	
Retained earnings, beginning of year	**$ 3,473**	$ 1,283
Net income for year	**3,844**	2,690
	7,317	3,973
Less — Dividends:		
Class A Preferred	**—**	11
Class B Preferred	**6**	65
Class C Preferred	**49**	145
Common	**595**	279
	650	500
Retained earnings, end of year	**$ 6,667**	$ 3,473

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the year ended December 31 **1976**	1975
	(thousands of dollars)	
Source of working capital		
Revenue	**$51,296**	$42,399
Less — Net operating costs (excluding net provisions for accrued costs), sales, administration and general expenses, interest (excluding realization of deferred income) and current taxes	**45,034**	36,300
Working capital provided from operations	**6,262**	6,099
Proceeds from investment disposals	**398**	31
Proceeds from property and equipment disposals	**1,900**	2,730
Term borrowing	**1,436**	5,400
	9,996	14,260
Use of working capital		
Purchase of property and equipment	**7,501**	8,521
Decrease in term debt	**2,180**	2,688
Dividends paid	**650**	500
Purchase of Class A and Class B preferred shares	**—**	218
Purchase of investments, including investment in joint venture	**867**	280
	11,198	12,207
Increase (decrease) in working capital	**(1,202)**	2,053
Working capital, beginning of year	**4,104**	2,051
Working capital, end of year	**$ 2,902**	$ 4,104

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1976

NOTE 1. ACCOUNTING POLICIES:

Principles of consolidation

The consolidated statements include the accounts of Kenting Limited and its subsidiaries all of which, except for its Nigerian subsidiary, are wholly-owned.

Certain 1975 figures have been reclassified to conform with the 1976 presentation.

The Company's investment in a corporate joint venture, amounting to $678,000 at December 31, 1976 (1975 — Nil) is carried on an equity basis. Joint venture assets consist primarily of interests in oil and gas properties and the full cost method of accounting is followed. Joint venture profits did not materially affect 1976 earnings. Other investments are carried at cost, less amounts written off.

Foreign exchange

The accounts of foreign subsidiaries have been translated into Canadian dollars; current assets and liabilities at the December 31, 1976 exchange rate, other balance sheet items and related depreciation at the historical exchange rate, and revenues and other expenses at the average exchange rate for the year. Working capital of the Nigerian subsidiary, which is subject to foreign exchange control regulations, amounted to approximately $2,117,000 at December 31, 1976 (1975 — $1,445,000).

Contracts and work in progress

The Company follows the practice of recording income from contracts under the percentage-of-completion method of accounting. Any anticipated losses are provided for in their entirety.

Property and equipment

The Company considers certain leases of capital property, because of the terms of such leases, to be purchases. In such cases the discounted values of future rental and purchase option payments under these leases are included in property and equipment and the related commitments are included in liabilities.

Depreciation rates are applied mainly on a reducing balance basis and will amortize costs, less estimated salvage values, over the estimated economic service lives of the respective assets.

The Company follows the full cost method of accounting for interests in oil and gas properties whereby all costs related to the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized. Depletion of costs is computed by the unit of production method based on total estimated proven reserves.

Other assets

Other assets include the net carried value (1976 — $442,000, 1975 — $544,000) of the remaining assets of the fixed-wing charter aircraft operation which was discontinued in 1975. It is anticipated that no material gain or loss will result from the disposition of these remaining assets.

Goodwill

In the opinion of management there is no indication of a decline in value of goodwill (the cost of investment in subsidiaries in excess of fair values assigned to identifiable net assets at date of acquisition) and accordingly it is not being amortized.

Goodwill has been reduced by income tax reductions (1976 — $38,000; 1975 — $477,000) occasioned by the utilization of pre-acquisition losses of a subsidiary.

Deferred income

Deferred income represents the unrealized portion of a 1975 gain on redemption of a debenture. The gain is being realized over the term of bank loans used to finance the redemption. Term debt interest has, as a result, been reduced by $243,000 in 1976 (1975 — Nil).

Provisions for accrued costs

Provisions for accrued costs amounted to $970,000 at December 31, 1976 (1975 — $648,000). Provisions are made (by charges to income based upon levels of operating activity) for estimated future liabilities relating to major overhauls of aircraft and helicopters and for costs which are occasionally incurred because of unpredictable delays in carrying out drilling contracts. Actual costs, when incurred, are charged against the appropriate provision to the extent of that provision.

NOTE 2. PROPERTY AND EQUIPMENT:

	Depreciation rates, mainly	1976	1975
		(thousands of dollars)	
Helicopters	9%	$ 3,524	$ 3,248
Drilling	9% to 33%	11,895	11,961
Mapping and geophysical	9% to 45%	6,840	5,522
Oilfield construction	25% to 45%	3,510	1,729
Interests in oil and gas properties		761	52
		26,530	22,512
Less — Accumulated depreciation and depletion		9,200	8,950
		$17,330	$13,562

NOTE 3. TERM DEBT:

		1976	1975
		(thousands of dollars)	
Bank loans, evidenced by demand notes, being repaid in monthly installments of $75,000 and quarterly installments of $12,500 together with interest at 1% above the prime rate. Bank loans and bank advances are secured by floating charge debentures, certain drilling rigs, the certificates of title to certain real property and accounts receivable		$ 3,175	$ 2,830
7-½% Convertible sinking fund debentures		—	525
6% Note repayable in January, 1977		200	200
Debenture, secured, with interest at 1% above the prime rate	(i)	3,943	4,100
Bank loan, being repaid in quarterly installments of $9,600 together with interest at 8%		191	—
		7,509	7,655
Less — Payments due within one year included in current liabilities		1,655	1,057
		$ 5,854	$ 6,598

(i) Debenture — repayable in annual installments as follows: $467,000 in 1977, $176,000 in 1978 and $600,000 from 1979 to 1983, with payment of remaining balance due January 15, 1984, secured by fixed charges upon certain drilling rigs. Accelerated payments are required if average drilling days as defined in the debenture exceed certain levels. Should anticipated drilling days be achieved during 1977, the 1978 payment would amount to approximately $489,000.

(ii) Annual payments due on term debt:

	(thousands of dollars)
1977	$1,655
1978	1,164
1979	1,589
1980	963
1981	638
Thereafter	1,500
	$7,509

NOTE 4. INCOME TAXES:

At December 31, 1976 certain subsidiaries have approximately $610,000 of unclaimed tax losses available, $80,000 of which expire in 1980 and $530,000 of which may be carried forward for an indefinite period. Anticipated benefits from future utilization of these losses have not been recognized in the accounts.

Taxable income in 1976 has been reduced by the utilization of loss carry-forwards of approximately $700,000 which were not previously recognized in the accounts. Since the deductibility of these losses has been disputed by tax officials, related extraordinary income of approximately $350,000 has not been recognized. The tax provision and the liability for the possible future payment have been included in deferred income taxes.

NOTE 5. SHAREHOLDERS' EQUITY:

The following table outlines the changes in Class C preferred shares, common shares, and paid in surplus during the year ended December 31, 1976:

	Class C Preferred Shares		Common shares		Paid in surplus
	Shares	Par value	Shares	Par value	
Balance, December 31, 1975	28,166	$943,000	773,917	$387,000	$3,650,000
Class C preferred shares second series converted to common shares (at 2.65 common shares for one preferred share)	(7,460)	(250,000)	19,769	10,000	240,000
	20,706	$693,000	793,686	$397,000	$3,890,000

Preferred shares

Class C preferred shares outstanding at December 31, 1976 are as follows — first series — 9,000 shares, par value $301,000; third series — 11,706 shares, par value $392,000.

Class C preferred shares third series are convertible into common shares from January 1, 1983 to December 31, 1987 on the basis of average December, 1982 common share quotations.

Class B preferred shares and Class C preferred shares (first series) are redeemable at annually reducing premiums which do not exceed 2.5% in 1977. Class C preferred shares (third series) are redeemable at par.

The Company has reserved 15,686 common shares for the possible conversion of preferred shares. Such conversion would not materially affect earnings per share.

Retained earnings

Under Section 62 of the Canada Corporations Act, $218,000 of retained earnings is designated as capital surplus.

NOTE 6. COMMITMENTS AND CONTINGENT LIABILITIES:

The Company is obligated under premises and equipment lease agreements to pay annual rentals of approximately $213,000 in 1977 decreasing to approximately $20,000 in 1982.

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts.

NOTE 7. REVENUE:

The revenue resulting from the operation of each of the Company's main classes of business, expressed as a percentage of total revenue, was as follows:

	1976	1975
Drilling	44%	40%
Mapping and geophysical	29%	32%
Oilfield construction	22%	18%
Helicopters and aircraft	5%	10%
	100%	100%

NOTE 8. REMUNERATION OF DIRECTORS AND OFFICERS:

	1976		1975	
	Number	Total	Number	Total
Directors	10	$ 26,000	10	$ 29,000
Officers	7	258,000	7	222,000
		$284,000		$251,000

Officers who were also directors: 1976 — 2; 1975 — 2.

NOTE 9. ANTI-INFLATION PROGRAM:

The Company (with the exception of its foreign subsidiaries and branches) is subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the Federal Government's anti-inflation program. Under the present anti-inflation legislation, common share dividends during the year ended December 31, 1977 may not exceed $1.15 per share, and may not be paid prior to October 14, 1977.

AUDITORS' REPORT

To the Shareholders of
KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

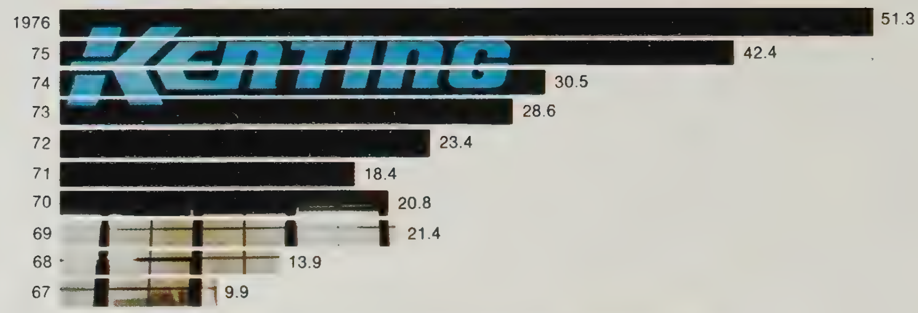
Calgary, Alberta
February 25, 1977

Price Waterhouse & Co.

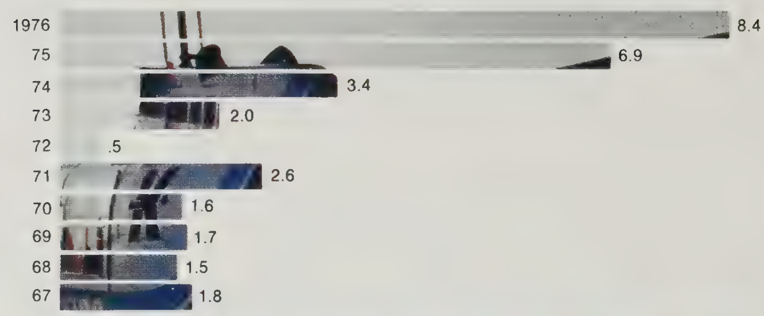
Chartered Accountants

LOSS | EARNINGS

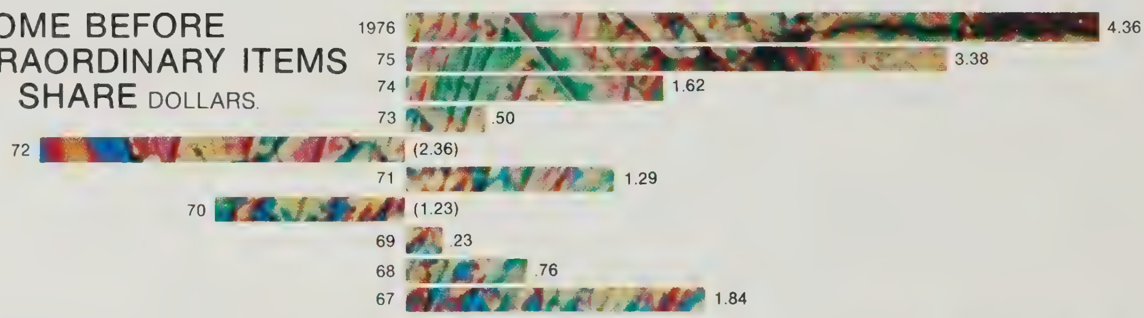
REVENUE
MILLIONS OF DOLLARS



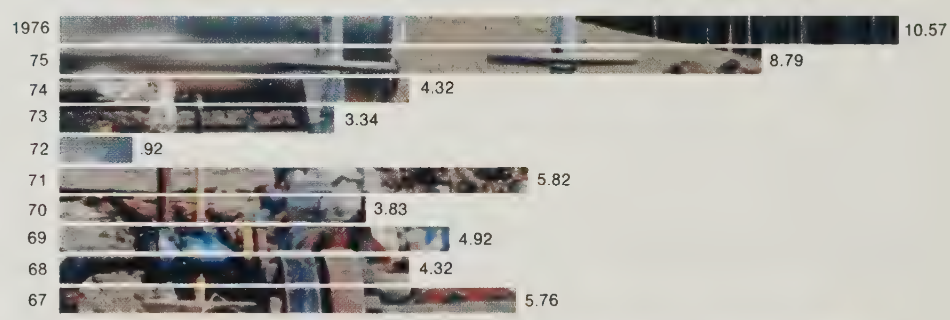
CASH FLOW FROM OPERATIONS (before income taxes)
MILLIONS OF DOLLARS



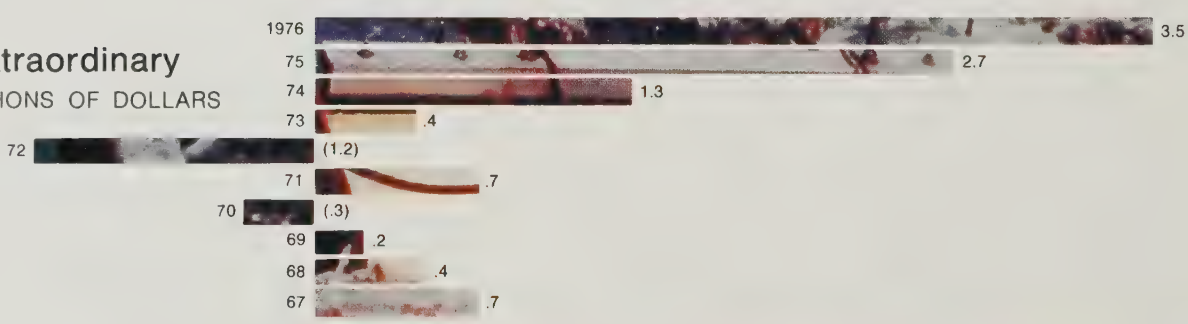
INCOME BEFORE EXTRAORDINARY ITEMS PER SHARE DOLLARS



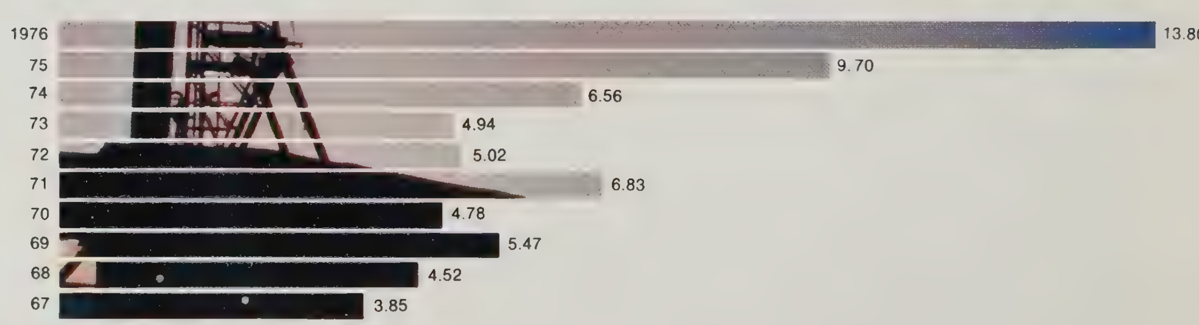
CASH FLOW PER SHARE DOLLARS



INCOME (before extraordinary items) MILLIONS OF DOLLARS



EQUITY PER SHARE
DOLLARS



3rd Floor, 700 - 6th Avenue S.W., Calgary, Alberta. T2P 0T8, Telephone: (403) 263-2980. TELEX: 03-824542

KENTING AFRICA RESOURCE SERVICES DIVISION
AIRBORNE MAPPING AND GEOPHYSICS, GROUND SURVEY

53 Lawson Street
P.O. Box 1658
Lagos, Nigeria, Africa.
Telephone: 25927-27295
TELEX: 90521308

P.O. Box 589
Bompai Road
Kano, Nigeria, Africa.
Telephone: 2828
TELEX: 90577155

KENTING EARTH SCIENCES DIVISION
AIRBORNE MAPPING AND GEOPHYSICS, GROUND SURVEY

380 Hunt Club Road
Ottawa, Ontario. K1G 3N3
Telephone: (613) 521-1630
TELEX: 053-4173

1323 - 48th Avenue N.E.
Calgary, Alberta. T2E 5T4
Telephone: (403) 277-8556
TELEX: 03-824712

248 Lesmill Road
Don Mills, Ontario. M3B 2T5
Telephone: (416) 445-9716

Suite 1206, 330 Bay Street
Toronto, Ontario. M5H 2S8
Telephone: (416) 361-0452

KENTING EXPLORATION SERVICES DIVISION
GROUND AND MARINE GEOPHYSICS

524 - 11th Avenue S.W.
Calgary, Alberta. T2R 0C8
Telephone: (403) 263-1701
TELEX: 03-822630

6004 Centre St. S.
Calgary, Alberta. T2H 0C3
Telephone: (403) 253-6633

KENTING HELICOPTERS DIVISION
HELICOPTER CHARTER

Hangar No. 3, Calgary
International Airport
Calgary, Alberta. T2P 2G3
Telephone: (403) 277-8526
TELEX: 03-821732

KENTING OILFIELD SERVICES DIVISION
PIPELINING AND CONSTRUCTION

34th St. and 84th Ave.
P.O. Box 4506
Edmonton, Alberta. T6E 4T7
Telephone: (403) 465-5276

3rd Floor, 700 - 6th Avenue S.W.
Calgary, Alberta. T2P 0T8
Telephone: (403) 263-2980

KENTING DRILLING DIVISION
PETROLEUM DRILLING

3rd Floor, 700 - 6th Avenue S.W.
Calgary, Alberta. T2P 0T8
Telephone: (403) 263-2980
TELEX: 03-824542

Highway 625 at Sparrow St.
Nisku Industrial Park
P.O. Box 85,
Nisku, Alberta. T0C 2G0
Telephone (403) 988-6521

TECHNICAL ENTERPRISE DIVISION
RUNWAY LIGHTING, PNEUMATIC AND ELECTRICAL EQUIPMENT

No. 2, 9766 - 51 Ave.
P.O. Box 4220
Edmonton, Alberta. T6E 4T2
Telephone: (403) 434-3421

KENTING (U.K.) LIMITED
PETROLEUM AND COAL DRILLING

Station Yard
Moortown
Lincoln, Lincolnshire
England. LN7 6HZ
TELEX: 51-527483

CORPORATE PROFILE:

Kenting is a technical group of Canadian service companies engaged in the identification of natural and human resources.

PHOTOGRAPHY CREDITS

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KENTING (U.K.) LIMITED
Ronald D. Pidskalny

KENTING LIMITED
Antonie Vanden Brink, T.A.G. Watson

OTHER CONTRIBUTORS

Donald Fox, Ronald D. Galloway, J. Brian Henry, Peter Jess

Directors and Officers by,
Paul Rockett and Wim Vanderkooy

KENTING LIMITED AND SUBSIDIARIES
TEN YEAR FINANCIAL SUMMARY

YEAR END FINANCIAL POSITION (thousands of dollars)

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967 (1)
Working capital	**$ 2,902**	4,104	2,051	1,808	(128)	1,401	(207)	(241)	1,086	331
Fixed assets, cost	**$26,530**	22,512	17,682	17,221	16,960	12,079	14,404	14,961	10,907	8,561
Accumulated depreciation	**$ (9,200)**	(8,950)	(8,189)	(8,467)	(7,735)	(6,118)	(5,918)	(4,993)	(4,246)	(3,274)
Net	**$17,330**	13,562	9,493	8,754	9,225	5,961	8,486	9,968	6,661	5,287
Term Debt	**$ 5,854**	6,598	4,331	5,588	5,862	2,215	2,903	4,049	3,710	2,621
Common shareholders' equity	**$10,954**	7,510	5,076	3,824	2,770	3,333	1,945	1,782	1,435	1,115

EARNINGS PER SHARE

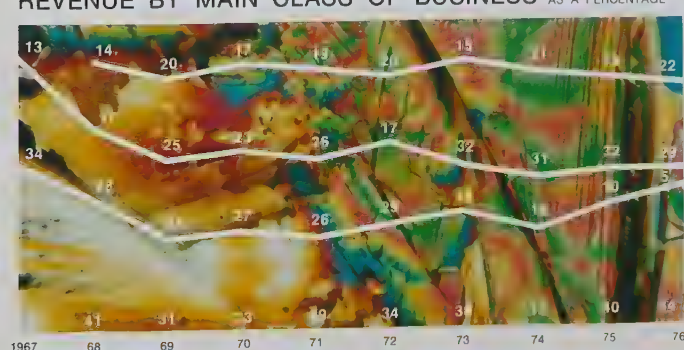
	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967 (1)
Earnings per common share (after provision for preferred share dividends):										
Cash flow from operations	**$ 10.57**	8.79	4.32	3.34	.92	5.82	3.83	4.92	4.32	5.76
Income (loss) before extraordinary items	**$ 4.36**	3.38	1.62	.50	(2.36)	1.29	(1.23)	.23	.76	1.84
Net income (loss)	**$ 4.78**	3.38	1.69	(.17)	(2.38)	.91	(2.14)	1.54	1.11	2.08
Weighted average number of shares outstanding	**793,686**	773,917	773,917	562,052	535,582	427,206	389,921	323,044	309,585	286,823
Provision for preferred share dividends	**$ 47,559**	77,040	81,868	80,771	53,204	121,048	136,106	146,190	146,190	146,190
Fully diluted earnings (loss) per common share:										
Income (loss) before extraordinary items	**$ 4.31**	3.13	1.50	.50	(2.36)	1.12	(1.23)	.45	.71	1.36
Net income (loss)	**$ 4.72**	3.13	1.57	(.17)	(2.38)	.85	(2.14)	1.20	.92	1.49
Dividends per share paid:										
Common	**$ .75**	.36	—	—	—	—	—	—	.30	.30
Class A preferred	**$ —**	2.25	.375	—	.375	1.875	—	.375	.75	.022
Class B preferred	**$ 1.80**	5.40	.90	—	.90	4.50	—	.90	1.36	—
Class C preferred										
— first series	**$ 2.01**	6.03	—	—	2.01	5.025	—	—	.38	—
— second series	**$ 1.005**	6.03	.253	—	—	—	—	—	—	—
— third series	**$ 2.01**	3.926	—	—	—	—	—	—	—	—

(1) 1967 is restated to give effect to a 1968 business combination accounted for as a pooling of interests. Income in that year has been reduced by the amount of net income applicable to the purchase portion of a subsidiary company combined on a partial pooling of interests basis.

OPERATING RESULTS (thousands of dollars)

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967 (1)
Revenue	**$51,296**	42,399	30,450	28,586	23,418	18,397	20,821	21,419	13,856	9,855
Net operating costs, sales, administration and general expenses and current interest	**42,317**	34,877	26,482	26,106	22,559	15,545	18,728	19,182	12,095	7,911
Interest on term debt	**538**	643	542	522	312	243	463	501	277	145
	42,855	35,520	27,024	26,628	22,871	15,788	19,191	19,683	12,372	8,056
Cash flow from operations	**8,441**	6,879	3,426	1,958	547	2,609	1,630	1,736	1,484	1,799
Depreciation, depletion and amortization	**2,561**	2,020	1,664	1,864	2,337	1,337	2,116	1,047	738	613
Loss (gain) on disposal of property and equipment	**(608)**	(488)	(807)	(600)	65	(64)	16	(11)	(52)	(56)
	1,953	1,532	857	1,264	2,402	1,273	2,132	1,036	686	557
Operating income (loss)	**6,488**	5,347	2,569	694	(1,855)	1,336	(502)	700	798	1,242
Income taxes provided (recovered):										
Current	**2,246**	1,093	340	(223)	87	295	(40)	29	110	76
Deferred	**837**	1,480	895	557	(733)	370	(121)	450	307	422
	3,083	2,573	1,235	334	(646)	665	(161)	479	417	498
	3,405	2,774	1,334	360	(1,209)	671	(341)	221	381	744
Portion of net income of pooled companies applicable to purchase	**—**	—	—	—	—	—	—	—	—	70
Minority interest in net loss (income) of subsidiary company	**105**	(84)	(1)	—	—	—	—	—	—	—
Income (loss) before extraordinary items	**3,510**	2,690	1,333	360	(1,209)	671	(341)	221	381	674
Extraordinary items	**334**	—	58	(375)	(13)	(163)	(355)	422	109	68
Net income (loss)	**$ 3,844**	2,690	1,391	(15)	(1,222)	508	(696)	643	490	742

REVENUE BY MAIN CLASS OF BUSINESS AS A PERCENTAGE



KENTING LIMITED AND SUBSIDIARIES
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Term Debt	**$ 5,854**	6,598	4,331	5,588	5,862	2,215	2,903	4,049	3,710	2,621
Common shareholders' equity	**$10,954**	7,510	5,076	3,824	2,770	3,333	1,945	1,782	1,435	1,115

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— second series	**$ 1.005**	6.03	.253	—	—	—	—	—	—	—
— third series	**$ 2.01**	3.926	—	—	—	—	—	—	—	—

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Loss (gain) on disposal of property and equipment	**(608)**	(488)	(807)	(600)	65	(64)	16	(11)	(52)
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Portion of net income of pooled companies applicable to purchase	**—**	—	—	—	—	—	—	—	—
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Net income (loss)	**$ 3,844**	2,690	1,391	(15)	(1,222)	508	(696)	643	490

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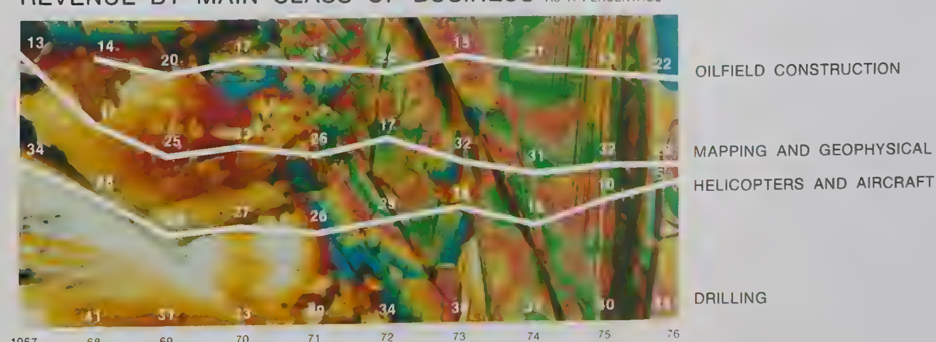

AR10

2 FIRST SIX MONTHS 1976

INTERIM REPORT TO OUR SHAREHOLDERS

"... markets for petroleum drilling and pipeline and oilfield construction remain strong ..."

KENTING

KENTING LIMITED

KENTING LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(in thousands except per share data)

	For The Six Months Ended June 30 1976	1975
Revenue	**$ 22,520**	$ 18,528
Net operating costs	**16,334**	13,663
Sales, administration and general expenses	**2,336**	1,897
Interest (net of realized portion of deferred income; 1976-$138, 1975-nil)	**254**	317
Provision for depreciation	**1,264**	923
Gain on disposal of property and equipment	**(121)**	(442)
	20,067	16,358
Operating profit	**2,453**	2,170
Provision for income taxes:		
Current	**1,038**	211
Deferred	**115**	841
	1,153	1,052
	1,300	1,118
Minority interest in net income of subsidiary company	**33**	58
Net income for period	**$ 1,267**	$ 1,060
Earnings per common share (after provision for preferred share dividends):		
Cash flow from operations (before taxes)	**$ 4.33**	$ 3.37
Net income	**$ 1.57**	$ 1.32
Weighted average number of shares outstanding	**793,686**	773,917
Fully diluted earnings per share	**$ 1.48**	$ 1.21

The above statement is unaudited.

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (in thousands)

	For The Six Months Ended June 30 1976	1975
Source of working capital		
Cash flow from operations	**$ 3,458**	$ 2,651
Net provisions for future overhaul and other costs	**233**	183
Provision for current income taxes	**(1,038)**	(211)
Working capital provided from operations	**2,653**	2,623
Proceeds from property and equipment disposals	**715**	626
Term borrowing	**450**	4,100
	3,818	7,349
Use of working capital		
Additions to property and equipment	**2,446**	5,909
Decrease in term debt	**925**	785
Preferred share dividends	**52**	209
Other, including net investment in joint ventures	**676**	188
	4,099	7,091
Increase (decrease) in working capital	**(281)**	258
Working capital, beginning of period	**4,104**	2,051
Working capital, end of period	**$ 3,823**	$ 2,309

The above statement is unaudited.

CONSOLIDATED BALANCE SHEET — CONDENSED

(in thousands)

ASSETS	June 30 1976	1975
Current	**$ 12,484**	$ 9,798
Investments in joint ventures and other companies	**1,172**	503
Assets of discontinued operations	**497**	—
Property and equipment net of accumulated depreciation	**14,189**	14,303
Other	**162**	152
Goodwill	**291**	1,419
	$ 28,795	$ 26,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current	**$ 8,661**	$ 7,489
Term debt	**6,123**	7,646
Deferred income	**307**	—
Deferred income taxes	**2,929**	2,651
Provisions for accrued costs	**869**	878
Minority interest in subsidiary company	**138**	79
	19,027	18,743
Shareholders' equity	**9,768**	7,432
	$ 28,795	$ 26,175

The above statement is unaudited.

To Our Shareholders

Net income for the six months ended June 30, 1976 was $1,267,000 up from $1,060,000 for the same period in 1975. Cash flow from operations before taxes increased to $3,458,000 from $2,651,000 and revenue was $22,520,000 compared with $18,528,000 for the corresponding 1975 period. Net income per share was $1.57 compared with $1.32 reported one year ago.

While petroleum exploration in general continues at a brisk pace in Western Canada the second quarter shows traditionally lower activity levels because of the suspension of drilling and seismic operations during the spring thaw.

The markets for petroleum drilling and pipeline and oilfield construction remain strong and we expect Kenting Drilling and Kenting Oilfield Services to show continued strong performance for the balance of 1976.

First half income did not meet expectations in two divisions.

Kenting Earth Sciences' recent efforts have been largely directed towards the installation of geophysical equipment in a number of survey aircraft. While this has reduced current production, we expect that income from contracts utilizing these installations will improve results during the second half of the year.

Kenting Exploration Services' operating results were down from the first half of last year, mainly due to the lack of geophysical shelf data sales and under-utilization of land seismic crews. This division presently has a good contract backlog and should show better earnings for the remainder of the year.

Klondike Helicopters is operating in poor markets and no improvement is expected this year. Results to date are similar to those of last year.

The long awaited Federal Land Regulations have not been well received by the petroleum exploration industry. To date they have not stimulated increased activity in the northern frontier areas.

We are optimistic about our company's future performance although this optimism is somewhat clouded by the uncertainties surrounding the Anti-Inflation Regulations. Our efforts to resolve these uncertainties are continuing.

A. Vanden Brink,
President.

August 12, 1976